

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 97-239-C – ORDER NO. 2004-452
SEPTEMBER 28, 2004

IN RE: Proceeding to Establish Guidelines for an) ORDER APPROVING
Intrastate Universal Service Fund) PETITIONS FOR
) FUNDING FROM
) STATE USF

I. PROCEDURAL BACKGROUND

This matter comes before the South Carolina Public Service Commission (“Commission”) upon the Application of ALLTEL South Carolina, Inc. (“ALLTEL”), Bluffton Telephone Company, Inc. (“Bluffton”), Hargray Telephone Company, Inc. (“Hargray”), Home Telephone Company, Inc. (“Home”), Horry Telephone Cooperative, Inc. (“Horry”), and PBT Telecom (“PBT”) (collectively, “Petitioning LECs”) for funding from the South Carolina Universal Service Fund (“State USF”) pursuant to S.C. Code Ann. § 58-9-280(E) (Supp. 2003) and Commission Order No. 2001-419 in this docket.¹

Commission Order No. 2001-419 approved a phased-in plan for implementing the State USF. By its Order No. 2001-996, the Commission approved guidelines and administrative procedures relating to the phased-in approach. Pursuant to its statutory authority as implemented in its orders, the Commission implemented the first (access) step of the first phase of State USF on October 1, 2001. This step allowed incumbent

¹ BellSouth Telecommunications, Inc. also filed a request for funding from the State USF, but later made a motion to hold its request in abeyance pending approval of a settlement agreement in another matter that would result in BellSouth’s withdrawal of the request. The Commission granted BellSouth’s motion to hold its request in abeyance.

local exchange carriers in South Carolina to reduce their access charges by approximately 50% and to recover the resulting lost revenues from the State USF. By its Order No. 2003-215 dated April 15, 2003, the Commission implemented the second (end user) step of the first phase of State USF, effective 90 days after issuance of the Order. In that step, six local exchange carriers (LECs) were permitted to make tariff reductions to certain end user services and to recover the resulting lost revenues from the State USF.

The current proceeding was scheduled to implement the second phase of State USF. According to the plan approved by the Commission, LECs can file tariffs on April 1 of each year, proposing to reduce rates that contain implicit support for basic local service and to recover those amounts from the State USF. The second phase of the State USF was limited so that local exchange carriers could not recover more than 2/3 of the total State USF to which they may be entitled pursuant to the cost studies approved in Commission Order No. 98-322 in this docket.

The Petitioning LECs requested and the Commission granted an extension of time in which to file proposed tariff reductions to implement the second phase of the State USF. Subsequently, on September 2, 2003, the Petitioning LECs filed proposed tariffs reflecting reductions in certain rates.

Bluffton Telephone Company's filing seeks to reduce the rate for its Measured Extended Area Service (MEAS), one of several Area Calling Plan (ACP) tariff offerings. Bluffton seeks to reduce its day time per minute rate for MEAS from \$0.06 to \$0.04 and its evening per minute rate from \$0.05 to \$0.04 to eliminate the existing time-of-day

differential in these rates. To offset the reduction on a revenue-neutral basis, Bluffton proposes to withdraw additional funding from the State USF in the amount of \$250,544.

Hargray Telephone Company's filing seeks to reduce the rate for its MEAS, one of several ACP tariff offerings. Hargray seeks to reduce its day time per minute rate for MEAS from \$0.06 to \$0.04 and its evening per minute rate from \$0.05 to \$0.04 to eliminate the existing time-of-day differential in these rates. To offset the reduction on a revenue-neutral basis, Hargray proposes to withdraw additional funding from the State USF in the amount of \$337,889.

Home Telephone Company's filing seeks to reduce monthly buy-in rates and per minute rates for several types of Calling Plan Service ("CPS"). Home also proposed to revise its intrastate tariff charges for T-1 services to mirror its Interstate Special Access Rates for High Capacity, 1.544 mbps as filed and approved by the Federal Communications Commission ("FCC") effective July 1, 2003. Home further proposes reductions in its intrastate tariffed rates for billing and collection services to more closely reflect the charges for interstate billing and collection. Finally, Home proposes tariff reductions in its L-M Optional Service and its M-L Termination Service available to Commercial Mobile Radio Service ("CMRS") providers. Home's proposed tariff changes are detailed in the following table:

<u>Service</u>	<u>Current Tariff Rate</u>	<u>Proposed Tariff Rate</u>	<u>Number of Units</u>	<u>USF Dollars Requested</u>
CP Services				
IntraLATA Toll	\$0.08	\$0.05	483,540	\$14,506.20
Seven Digit Dialing	\$0.08	\$0.05	2,182,020	\$65,460.60
Residential Measured ACP	\$0.045	\$0.035	984,996	\$9,849.96
Capped Option A	\$0.08	\$0.05	184,908	\$5,547.24
Capped Option B	\$0.06	\$0.04	215,868	\$4,317.36
Capped Option C > 1200 min	\$0.04	\$0.03	819,468	\$8,194.68
Capped Option C > 10,000 min	\$0.03	\$0.02	2,797,056	\$27,970.56
Capped Option C Buy In / Month	\$36.00	\$24.00	100	\$14,400.00
T-1 Service				
T-1 Channel Termination (PL)	***	\$161.56	29	\$19,248.60
T-1 Channel Termination (SA)	\$205.99	\$161.56	3	
T-1 Channel Mileage Termination (PL)	***	\$92.40	29	(\$13,703.28)
T-1 Channel Mileage Termination (SA)	\$261.62	\$92.40	3	
T-1 Channel Mileage Facility (PL)	***	\$17.79	29	\$39,075.37
T-1 Channel Mileage Facility (SA)	\$70.54	\$17.79	3	
B&C Services				
Message Processing (Rating)	\$0.01	\$0.004	1,929,362	\$11,576.17
Billed Processing	\$0.061	\$0.0244	1,929,362	\$70,614.65
Billed Inquiry	\$0.013	\$0.0052	1,929,362	\$15,049.02
Billed Processing / Rendering	\$0.26	\$0.34	64,049	(\$4,939.64)
L-M Optional Service	\$0.037 ###	\$0.020	6,372,715	\$108,336.16
M-L Termination Service	\$0.037	\$0.020	19,172,033	\$325,924.56

*** See current tariff for rates. These elements vary by mileage band and term.

The tariff rate for L-M Optional Service is \$0.074. However, Home only billed using the rate of \$0.370. Therefore, the billed rate of \$0.0370 was used for USF calculations.

To offset the reduction on a revenue-neutral basis, Home proposes to withdraw additional funding from the State USF in the amount of \$721,428.

Horry Telephone Cooperative's filing seeks to reduce rates for Custom Calling and CLASS features, as detailed in its filing. To offset the reduction on a revenue-neutral basis, Horry proposed to withdraw additional funding from the State USF in the amount of \$1,957,949.

PBT Telecom's filing seeks to reduce per minute rates for certain ACP offerings. PBT also seeks to reduce Intrastate Private Line T-1 Service and Intrastate Special Access High Capacity 1.544 mbps Service ("T-1 Service") to mirror its Interstate Special Access Rates for High Capacity, 1.544 mbps as filed and approved with the FCC effective July 1, 2003. Finally, PBT seeks to reduce its Intrastate Billing and Collection Services to mirror the charges for Interstate Billing and Collection. PBT's proposed changes are detailed in the following table:

<u>Service</u>	<u>Current Tariff Rate</u>	<u>Proposed Tariff Rate</u>	<u>Number of Units</u>	<u>USF Dollars Requested</u>
ACP Service				
Res & Bus Option 1 8AM – 8PM	\$0.059	\$0.0295	79,116	\$2,333.92
Res & Bus Option 2 8AM – 8PM	\$0.059	\$0.0295	160,728	\$4,741.48
Bus Option 3 8AM – 8PM	\$0.029	\$0.0275	2,067,924	3,101.89
T-1 Service				
T-1 Channel Termination (PL)	***	\$178.63	34	\$78,193.22
T-1 Channel Termination (SA)	\$205.99	\$178.63	10	
T-1 Channel Mileage Termination (PL)	***	\$95.34	34	\$20,034.96
T-1 Channel Mileage Termination (SA)	\$261.62	\$95.34	10	
T-1 Channel Mileage Facility (PL)	***	\$19.34	34	\$202,947.11
T-1 Channel Mileage Facility (SA)	\$70.54	\$19.34	10	
B&C Services				
Billed Processed	\$0.0610	\$0.0200	2,348,700	\$96,296.70
Billed Inquiry	\$0.0130	\$0.0060	2,348,700	\$16,440.90
Billed Processing/ Rendering	\$0.3600	\$0.0000	129,256	\$46,532.16

*** See current tariff for rates. These elements vary by mileage band and term.

To offset the reduction on a revenue-neutral basis, PBT proposes to withdraw additional funding from the State USF in the amount of \$470,622.

ALLTEL South Carolina, Inc.'s filing seeks to reduce the rates for intrastate special access services, as reflected in the tariff reductions filed by ALLTEL in this proceeding. To offset the reduction on a revenue-neutral basis, ALLTEL proposes to withdraw additional funding from the State USF in the amount of \$450,990.

In total, the companies seek additional funding from the State USF of approximately \$4,189,422.

Along with the tariff filings, the Petitioning LECs filed detailed cost data clearly demonstrating that implicit support exists in the rates that are sought to be reduced, as

required by paragraph 12 of Commission Order No. 2001-419. For Bluffton, Hargray, Home, Horry, and PBT, the detailed cost data consisted of embedded cost of service studies. The methodology for these studies was the same methodology used by the companies and approved by the Commission in the initial cost proceeding for State USF, as well as in the prior phase of State USF. Bluffton, Hargray, Home, Horry, and PBT also filed cost study information showing the updated cost of providing basic local exchange telephone service for the respective companies. Bluffton, Hargray, Home, Horry and PBT each filed a motion requesting confidential treatment of their respective cost studies.

ALLTEL filed the cost study it uses before the FCC in determining the revenue requirement for interstate special access services. According to ALLTEL, this study can be used as a proxy for establishing a “price floor” for intrastate special access rates. ALLTEL filed certain of its information under seal and requested that the Commission not disclose the sealed information to anyone without ALLTEL’s prior consent.

The Commission issued a Notice of Filing and Hearing in this matter under existing Commission Docket No. 97-239-C, which relates to State USF matters. This is an open docket in which numerous parties have intervened, including the South Carolina Telephone Association (“SCTA”); the South Carolina Telephone Coalition (“SCTC”); BellSouth Telecommunications, Inc. (“BellSouth”); GTE South, Incorporated, now known as Verizon South, Incorporated (“Verizon”); the Consumer Advocate for the State of South Carolina (“Consumer Advocate”); the South Carolina Cable Television Association (“SCCTA”); Southeastern Competitive Carriers Association (“SECCA”);

Worldcom, Inc. (“WorldCom”); Alliance for South Carolina’s Children (“Alliance”); South Carolina Fair Share and the Women’s Shelter (“SC Fair Share”); AT&T Communications of the Southern States, Inc. (“AT&T”); South Carolina Public Communications Association (“SCPCA”); John C. Ruoff, Ph.D. (“Ruoff”); United Telephone Company of the Carolinas, Inc. (“Sprint/United”); South Carolina Budget and Control Board, Office of Information Resources (“OIR”); LCI International, Inc. (“LCI”); ALLTEL South Carolina, Inc. and ALLTEL Communications, Inc. (“ALLTEL”); Cellco Partnership d/b/a Verizon Wireless (“Verizon Wireless”); and ITC^DeltaCom.

A public hearing was held in this matter on May 5, 2004. During the hearing, Bluffton, Hargray, Home, Horry, and PBT were represented by M. John Bowen, Jr., and Margaret M. Fox. These companies collectively presented the revised direct testimony of Emmanuel Staurulakis.

ALLTEL was represented by Robert D. Coble. ALLTEL presented the testimony of Jane Eve (adopting the pre-filed direct revised testimony of Rohan Ranaraja) and Scott Terry.

BellSouth was represented by Patrick Turner. Mr. Turner presented BellSouth’s motion to hold its request in abeyance. The motion was made on the grounds that BellSouth had entered a settlement agreement in another matter which, if approved by the court, would require BellSouth to withdraw its request for additional State USF funding. The Commission granted the motion, and Mr. Turner thereafter stated that his presence was for the purpose of monitoring the proceeding only.

The Consumer Advocate was represented by Elliott F. Elam, Jr. The Consumer Advocate presented no witnesses.

SCCTA was represented by Frank R. Ellerbe, III. SCCTA presented no witnesses. Mr. Ellerbe stated on the record that SECCA would not be participating in the proceeding.

AT&T was represented by John J. Pringle, Jr. AT&T presented no witnesses. Mr. Pringle stated on the record that SCPCA would not be participating in the proceeding.

WorldCom was represented by Darra W. Cothran and Ken Woods. WorldCom presented no witnesses.

Verizon Wireless was represented by John M.S. Hoefer. Verizon Wireless presented no witnesses.

ITC^DeltaCom was represented by Robert E. Tyson, Jr. ITC^DeltaCom presented no witnesses.

The Commission's Staff was represented by F. David Butler and Jocelyn G. Boyd. The Commission Staff presented the testimony of Barbara J. Crawford and David S. Lacoste. The pre-filed revised direct testimony of James M. McDaniel was held in abeyance, as it related only to BellSouth's portion of the case.

No other appearances were entered.

II. SUMMARY OF TESTIMONY

JANE EVE

ALLTEL presented Jane Eve, Director of State Government Affairs, who adopted the revised direct pre-filed testimony of Rohan Ranaraja. Ms. Eve explained ALLTEL's proposal to draw additional funds from the State USF and demonstrated that ALLTEL's filing complied with the Commission's Guidelines for the State USF. Ms. Eve testified that the State USF funds previously approved for ALLTEL, when combined with the instant request, is less than 33% of ALLTEL's eligible State USF funding and, therefore, it was not necessary for ALLTEL to file updated studies showing the cost of providing basic local exchange service on a per line basis. Ms. Eve further testified that the filing was revenue-neutral for ALLTEL, because it was making a dollar-for-dollar reduction in rates containing implicit support in order to qualify for State USF funding, in accordance with Commission requirements. Ms. Eve testified that the proposed rates were set at a level that is above the calculated cost of providing the services.

SCOTT TERRY

ALLTEL also presented the testimony of Scott Terry, Manager – Access Tariffs and Rates for ALLTEL Communications. Mr. Terry described the cost methodology utilized by ALLTEL to determine the level of implicit support contained in ALLTEL's intrastate special access rates. According to Mr. Terry, ALLTEL complied with all the FCC rules regarding cost separations to develop the intrastate special access revenue requirement. ALLTEL utilized the same methodology it uses to file interstate access revenues annually with the FCC.

EMMANUEL STAURULAKIS

Bluffton, Hargray, Home, Horry, and PBT presented the testimony of Emmanuel Staurulakis, President of John Staurulakis, Inc. (JSI), a telecommunications consulting firm. Mr. Staurulakis described the cost methodology used to determine the level of implicit support contained in the rates of the end user services proposed for reduction by the five companies. He also described recent developments in the federal arena with regard to universal service funding. Mr. Staurulakis testified that none of the five companies participating in the proceeding is requesting additional State USF that, when combined with State USF support received in accordance with the prior phase, would exceed the 66.67% threshold. He further testified that Bluffton, Home, and PBT, with this filing, had reached the 1/3 threshold requiring them to update their cost studies with respect to the cost of providing basic local exchange service. JSI performed cost studies to update the cost of basic local exchange service for those companies. Mr. Staurulakis testified that the updated cost studies show that the cost per line for basic local exchange service for the three impacted companies increased when compared with the original results calculated in the initial State USF cost proceeding. For Bluffton, the cost per line increased from \$50.07 to \$53.78. For Home, the cost per line increased from \$46.14 to \$58.08. For PBT, the cost per line increased from \$56.49 to \$61.29. Mr. Staurulakis testified that the request for State USF was revenue neutral for the companies because they could not receive funds until tariff reductions were approved. He testified that the proposed rates for the five companies were set at levels above the calculated cost of service for each service. According to Mr. Staurulakis, JSI used the Commission

approved cost methodology and actual cost and demand data for the most recent year to calculate the embedded cost of service for the services identified for each of the five companies. Mr. Staurulakis testified that the cost methodology utilized both to determine the level of implicit support contained in the service rates proposed for reduction by each of the five companies and to update the cost of basic local exchange service for Bluffton, Home, and PBT is consistent with the cost methodology previously approved by the Commission in this docket for rural telephone companies.

BARBARA J. CRAWFORD

The Commission Staff presented the testimony of Barbara J. Crawford, Auditor with the Public Service Commission of South Carolina. Ms. Crawford summarized the Audit Staff's participation in the review of the documents filed by the Petitioning LECs in the proceeding. Ms. Crawford testified that the Audit Staff had examined the cost studies filed, and confidential source documentation, and that the respective Petitioning LECs' cost studies were supported by the various companies' books and records.

DAVID S. LACOSTE

The Commission Staff also presented the testimony of David S. Lacoste, Engineer (Associate) with the Commission's Utilities Department. Mr. Lacoste testified that the studies filed by JSI on behalf of Bluffton, Hargray, Home, Horry, and PBT are very detailed and take into account costs associated with plant items such as central office, cable, poles, vehicles, work equipment and other facility items which are typically involved in telephone company operations. He testified that maintenance and depreciation expenses were also identified, along with cost associated with each

company's business office and information services activities, and that the studies show in detail direct, shared and common costs associated with each tariff item proposed for reduction. Mr. Lacoste concluded that the studies show that implicit support exists in each of the rates proposed to be reduced and that, with the proposed reductions, the rates still exceed associated cost. With respect to ALLTEL's filing, Mr. Lacoste testified that, while its cost study does not show direct costs associated with each individual tariff item proposed for change, the study information indicates that an overall Special Access revenue requirement of \$814,811 is needed to cover the total costs for this classification of service. Revenue generated at the new lower rates (\$814,874) still exceeds the cost. Mr. Lacoste concluded that each of the Petitioning LECs had demonstrated its need for additional State USF funding.

III. MOTIONS

BELLSOUTH MOTION TO HOLD ITS REQUEST IN ABEYANCE

As previously noted, BellSouth moved at the beginning of the proceeding to hold its request in abeyance. TR. at 8-9. The reason for the request was that BellSouth had entered into a settlement agreement in an unrelated matter. As part of the settlement agreement, BellSouth had agreed it would withdraw its request for State USF funding in this proceeding. TR. at 9. However, because the agreement had not yet received the required approval of the court, BellSouth asked the Commission to hold its portion of the case in abeyance. *Id.* There were no objections to proceeding in this manner. The Commission found BellSouth's request to be reasonable and in the interest of the administration of justice and administrative efficiency and, therefore, granted the motion.

BellSouth's portion of the case and, consequently, the pre-filed testimony of Kathy K. Blake (Direct and Supplemental), J. Edward Matejick, and Robert McKnight on behalf of BellSouth, was held in abeyance. Likewise, the pre-filed testimony of James M. McDaniel on behalf of the Commission Staff was held in abeyance at the request of the Commission Staff's counsel. TR. at 197.

SCCTA MOTION TO DENY PETITIONING LECs' REQUESTS AS A MATTER OF
LAW

At the close of the case, Mr. Ellerbe moved on behalf of SCCTA that the Commission deny, as a matter of law, the proposals set forth by the Petitioning LECs. TR. at 200. Mr. Ellerbe argued that the Petitioning LECs had not submitted sufficient information for the Commission to carry out its responsibilities in monitoring the State USF funds. *Id.* The Consumer Advocate joined in the motion. TR. at 203-04.

Counsel for SCCTA made a similar motion in the last proceeding addressing State USF requests. In that proceeding, counsel stated he was not arguing that the petitioners had not done what was required of them under the Commission's prior State USF orders, but was merely expressing his disagreement with those prior orders and asking the Commission to reconsider them. See Transcript of January 29, 2003 hearing before the Commission in this docket at 128-29; Commission Order No. 2003-215 at 12.

We hereby deny SCCTA's motion, for the same reasons as before. This Commission has been through years of hearings, beginning in August 1997, on this matter and has issued detailed and exhaustive orders in this case. Some of those orders were appealed to the Circuit Court. Judge Kinard issued a detailed 44-page order in

which he affirmed the Commission's orders and concluded: "There is substantial evidence in the record to support the Commission's decisions regarding the State USF. The Commission acted properly and in accordance with its statutory mandate, as well as in the interest of the public, in establishing and implementing the State USF." Order of the Honorable J. Ernest Kinard, Jr. dated September 30, 2002, at p. 43. The case is currently pending before the Supreme Court of this State. We will proceed to consider the requests of the Petitioning LECs on their merits.

IV. OVERVIEW OF STATE USF PROCEEDINGS

This Commission has detailed the concept and goals of universal service in prior orders, most particularly in Commission Order No. 2001-419 in this docket, and has made a number of public interest findings in approving a plan for a phased-in implementation of State USF. Our review here will focus on the instant filing and whether it complies with our prior orders and serves the public interest.

The instant proceeding is the Commission's fifth proceeding to address State USF. In the first proceeding in Docket No. 97-239-C, which began in August 1997, the Commission adopted guidelines, as required by S.C. Code Ann. § 58-9-280(E). The guidelines, among other things, define the services that are supportable under the State USF, define eligibility requirements for receiving funding from the State USF, declare that funding is portable to any qualified Carrier of Last Resort, and establish the administrator of the State USF. The Commission deferred issues relating to the selection of an appropriate cost model(s) and methodologies; sizing the fund; recovery of USF

contributions; and maximum allowable rates. See Commission Order No. 97-753, as modified upon reconsideration in Order Nos. 97-942 and 98-201.

With respect to sizing the fund, the State statute provides that the size of the State USF is the sum of the difference, for each carrier of last resort, between its costs of providing basic local exchange services and the maximum amount it may charge for the services. S.C. Code Ann. § 58-9-280(E)(4). The State statute defines basic local exchange telephone service as “for residential and single-line business customers, access to basic voice grade local service with touchtone, access to available emergency services and directory assistance, the capability to access interconnecting carriers, relay services, access to operator services, and one annual local directory listing (white pages or equivalent).” S.C. Code Ann. § 58-9-10(9). At the time of the first proceeding, however, the Commission had not yet determined the appropriate methodology to be used to determine costs and thus was unable to size the fund at that time.

In its second proceeding in November 1997, the Commission primarily addressed the selection of appropriate cost model(s) and methodologies, and sizing the State USF. The Commission adopted the Benchmark Cost Proxy Model 3.1 as the state forward-looking cost model for BellSouth, GTE, and Sprint/United, after making certain modifications to company specific inputs. The Commission also adopted the South Carolina Telephone Coalition’s proposed embedded cost model, including recommended inputs for rural LECs (other than Sprint/United). All other matters related to the intrastate USF that were not ruled upon were “held in abeyance.” See Commission Order No. 98-322.

In the third proceeding, the Commission addressed outstanding issues relating to the State USF and ordered a phased-in implementation of the fund, consistent with the Commission's statutory obligation to "establish a universal service fund (USF) for distribution to a carrier(s) of last resort." S.C. Code Ann. § 58-9-280(E). Under the State USF implementation adopted by the Commission in Order No. 2001-419, there is a series of steps or phases leading to the full implementation of the State USF. The phase-in will occur in at least three stages. The first phase consists of two steps. The first step, which was implemented effective October 1, 2001, required an immediate reduction of approximately 50% in intrastate access rates.

In the fourth proceeding, the Commission considered a request for additional State USF funding from six individual LECs to implement the second (end user) step of the first phase of State USF. By Commission Order No. 2003-215, the Commission approved the six LECs' requests to reduce end user rates for MEAS, ACP, and IntraLATA calling services and to recover funding from the State USF on a revenue-neutral basis. The initial phase (access and end user steps) was limited to no more than 33.33% of total State USF, sized according to the Commission's previously approved guidelines. In addition, each individual LEC was limited to one third of its maximum State USF on a company-specific basis.

The instant proceeding is to address the second phase of State USF. The second phase is limited to no more than 66.67% of total State USF, sized according to the Commission's previously approved guidelines. In addition, each individual LEC is limited to two-thirds of its maximum State USF on a company-specific basis.

Each phase of State USF requires tariff filings to reduce rates in compliance with Section 4 of the State USF guidelines, which requires that carriers of last resort make dollar-for-dollar rate reductions before being permitted to draw funds from the State USF. Tariff filings, if made, are required not later than April 1 of each year, and any rate reductions approved by the Commission for those rates containing implicit support are intended to be implemented on October 1 of each year. In order to receive funding beyond the initial (access) step, any local exchange carrier (LEC) seeking further tariff reductions is required to file detailed cost data with the Commission clearly demonstrating that implicit support exists in the rates that are proposed to be reduced. In addition, each LEC is required to update the results of its cost model before being permitted to withdraw more than one-third of its company-specific State USF amount.

V. FINDINGS AND CONCLUSIONS

1. The Commission has a statutory obligation to establish a State USF for distribution to carriers of last resort. S.C. Code Ann. § 58-9-280(E).

2. The Commission has complied with its statutory obligation to establish a State USF and previously set forth a phased-in schedule for implementing the State USF to ensure that funds are distributed to carriers of last resort. See Order No. 2001-419. The Commission has adopted guidelines and procedures for implementation. See Order No. 2001-996 and State USF Guidelines and Administrative Procedures attached thereto. The Commission has previously granted requests for rate reductions and recovery of lost revenues from the State USF. See Commission Order Nos. 2001-419 and 2003-215.

3. The Petitioning LECs have filed embedded cost studies that clearly demonstrate that implicit support exists in the rates they seek to reduce, as required by paragraph 12 of Order No. 2001-419. See cost studies and backup documentation filed as part of the respective companies' applications and submitted under seal for the hearing record in this proceeding. Bluffton, Hargray, Home, Horry, and PBT filed studies prepared by telecommunications consultant John Staurulakis, Inc. The studies utilized the same cost methodology approved by the Commission in Order No. 98-322 and actual cost and demand data for the most recent year available. TR. at 79. The studies show that there is implicit support in each of the rates sought to be reduced, and that, with the proposed rate reductions, the respective rates still exceed the cost of providing the services. TR. at 78-79; 172. ALLTEL used the study it filed with the FCC in determining the revenue requirement for interstate special access services, as a proxy or "price floor" for intrastate special access service cost. See ALLTEL "Overview," filed in this proceeding on September 2, 2003. The cost study complied with all FCC rules regarding cost separations to develop the intrastate special access revenue requirement. TR. at 41. The revenue requirement for intrastate special access services was determined based on ALLTEL's embedded costs. TR. at 16, lines 13-14.

4. It is appropriate for rural telephone companies to use embedded cost methodologies for cost of service studies. See S.C. Code Ann. § 58-9-280(J); Commission Order No. 98-322; Commission Order No. 2003-215 at 16.

5. We agree with the respective Petitioning LECs, and therefore grant their respective motions for confidential treatment of the cost studies submitted in support of

their latest requests in this Docket. In today's competitive environment, we agree that making the information publicly available could give actual and potential competitors an unfair competitive advantage. This is consistent with the manner in which we have treated such information in the past. See Commission Order No. 2002-481.

6. Each of the rates proposed by the Petitioning LECs for the respective services they propose to reduce is above the calculated cost of providing the service. TR at 41, 78, 172.

7. The amount of State USF funding requested by each of the Petitioning LECs, when combined with the funding received from the first phase of State USF, does not exceed $\frac{2}{3}$ of the company-specific State USF for each respective company. TR at 14, 74-75; Hearing Exhibit No. 3. Thus, none of the companies has exceeded its allowable State USF for the second phase, as provided for in paras. 13-14 of Commission Order No. 2001-419 and as outlined in the guidelines and administrative procedures for State USF attached to Commission Order No. 2001-996.

8. The amount of State USF funding requested by ALLTEL, Hargray, and Horry, when combined with the funding received from the first phase of State USF, does not exceed $\frac{1}{3}$ of the company-specific State USF for each respective company. TR at 15, 75. Therefore, these companies are not required to update the results of their basic local exchange service cost studies at this time. However, should any of these LECs request additional State USF funding that exceeds one-third of its company-specific State USF amount, updated basic local exchange service cost studies will be required, as directed in Commission Order No. 2001-419, para. 22.

9. The amount of State USF funding requested by Bluffton, Home, and PBT, when combined with the funding received from the first phase of State USF, does exceed 1/3 of the company-specific State USF for each respective company. TR at 75; Hearing Exhibit No. 3. Thus, these companies are required to update the results of their basic local exchange service cost studies. This will ensure that no company's withdrawal exceeds appropriate cost or the allowable State USF for that specific company. See Commission Order No. 2001-419, para. 22. JSI performed cost studies to update the cost of basic local exchange service for those companies. As Mr. Staurulakis testified, the updated cost studies show that the cost per line for basic local exchange service for the three impacted companies increased when compared with the original results calculated in the initial State USF cost proceeding. For Bluffton, the cost per line increased from \$50.07 to \$53.78. For Home, the cost per line increased from \$46.14 to \$58.08. For PBT, the cost per line increased from \$56.49 to \$61.29. TR. at 75-76; Hearing Exhibit No. 3. The methodology used in these updated cost studies was consistent with the methodology previously used by the companies and approved by the Commission for use in this docket. TR. at 79. We are satisfied that the results of these updated cost studies show that the companies' requests are appropriate and that no company's request exceeds its appropriate cost or the allowable State USF for that specific company in the second phase of State USF implementation.

10. All of the testimony presented in the proceeding supported the Petitioning LECs' requests and cost studies. Several of the participants in this proceeding participated in cross-examination of the Petitioning LECs and Commission Staff

witnesses. While none of these parties presented testimony in the proceeding, they appear to advocate at least some changes in the guidelines and administrative procedures governing the State USF. However, the points raised through cross-examination and through motions and statements on the record seem to be nothing more than a re-hashing of arguments previously addressed and rejected by this Commission. We again find these arguments unconvincing.

11. Some of the parties seem to suggest new procedures that are inconsistent with those we have previously adopted. For example, some parties questioned whether it might be appropriate for the Commission to take into account the stimulation in demand for those services whose rates will be reduced in calculating the State USF funding needed to offset the loss. See, e.g., TR at 55, 97-99, 114-15. We previously rejected such an approach, and we do so again. See Commission Order No. 2003-215 at 18. As we stated then, measuring any demand stimulation would be a difficult task and is not likely to yield accurate results. Id. Demand stimulation is hypothetical at best. While there is a possibility demand would increase with a decrease in price, there is also a possibility that demand would decrease, depending on the nature of the calling plan and what other providers in the area are offering. Id. Further, the purpose behind reducing the selected rates is to “slow the flow of minute loss,” so whether the companies would have more minutes of use or would merely be slowing the loss of minutes of use is unclear. Id. Additionally, even if there were a stimulation of minutes of use, it would likely be accompanied by an increase in expenses to meet the demand. Id.

12. Likewise, implementing a procedure to track the accuracy of “projected” revenue losses is unnecessary, and we previously rejected such a procedure. See Commission Order No. 2003-215 at 18-19. We again find that such a procedure is not necessary and is counter to the policies behind the State USF. To begin with, the revenues reported by the Petitioning LECs are not projections but are based on actual demand for the companies’ services. TR. at 140. The State USF is designed so that the amount of funding is calculated at the time the funding is implemented and converted to a per-line amount for portability purposes. See Section IV.D. of State USF Administrative Procedures, attached as Exhibit B to Commission Order No. 2001-996. Once the State USF is calculated on a per-line basis, the amount of funding received by a particular company will track along with the gain or loss of access lines. Thus, the “tracking” mechanism suggested by several parties would not only be administratively burdensome, but it is also unnecessary. Furthermore, the suggestion that future State USF withdrawals should be adjusted based on the fluctuations in demand for the services reduced is inconsistent with the concept of universal service funding. Universal service support programs identify implicit support and convert it to explicit support so that the support will remain constant and not erode even if the demand for those services erodes. In this manner, the support that keeps basic local service affordable can be maintained even if the local exchange company loses customers and access revenues, for example as a result of wireless carriers offering regional calling plans. The fact that the LEC’s access minutes of use decline in such a scenario is precisely the reason why State USF should

remain static so that the support that keeps basic local exchange service affordable does not disappear with the access revenues.

13. At least one of the parties also seemed to take issue with the Commission's previously-adopted methodology that allows LECs to choose which rates they will reduce. See, e.g., TR at 130. We again reject the suggestion that the companies should be required to undertake expensive and time-consuming studies to identify the amount of implicit support in each and every service prior to being permitted to reduce rates for particular services. One of the objectives of universal service funding is to make explicit funding available to replace the implicit support that currently exists in the rates for certain services. See Order No. 2001-419 at 32, para. 3. The Commission could have implemented the fund all at one time by ordering the immediate removal of all implicit support from rates. The Commission instead chose to take a more cautious, phased-in approach. One of the fundamental points of such an approach is that funding will be implemented in phases. While there is no need to show actual competition or competitive erosion of services before being permitted to reduce rates for those services that contain implicit support [see Commission Order No. 2001-419 at 45, para. 27], the companies themselves are in the best position to determine what market pressures exist and which services are more critical than others to reduce.

14. Some intervenors expressed concerns that the guidelines and procedures may allow companies to over-recover from the State USF. See TR. at 28, 130. These concerns are unfounded. The Commission requires that each eligible LEC must make dollar-for-dollar reductions in rates containing implicit support before the LEC can

withdraw explicit support from the State USF. TR. at 76; Commission Order No. 2001-419 at 42; Section 4 of Guidelines for State USF, attached as Exhibit A to Commission Order No. 2001-996. Thus, the State USF is revenue-neutral.

15. The Petitioning LECs' requests are approved as filed, subject to adjustment by the Commission Staff as appropriate to ensure compliance with our prior orders and the State USF guidelines and administrative procedures.

IT IS THEREFORE ORDERED THAT:

1. The request for additional State USF funding by each of the respective Petitioning LECs in this matter is granted.

2. The proposed tariffs filed by the Petitioning LECs are approved, effective upon implementation of the State USF funding to offset the tariff reductions proposed by the Petitioning LECs, consistent with the revenue neutrality principle of the State USF guidelines.

3. The Commission will implement the additional State USF funding approved here as soon as feasible, and not later than October 1, 2004.

4. The SCCTA's motion to deny the requests as a matter of law is denied for the reasons stated herein.

5. BellSouth's motion to hold its request in abeyance, and the Commission Staff's request to likewise hold the pre-filed testimony of James M. McDaniel in abeyance, are hereby granted.

6. The motions of the respective Petitioning LECs for confidential treatment of the cost studies submitted in support of their requests and provided for the record under seal are hereby granted.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

/s/
Randy Mitchell, Chairman

ATTEST:

/s/
O'Neal Hamilton, Vice-Chairman

(SEAL)